



Internal Revenue Service
Small Business and Self-Employed
Taxpayer Education and Communication



Tax Information for Small Businesses

Consider it Done



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CONSTRUCTION
Office In The Home
IRC Section 280A



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Must Meet All

- **Exclusive Use**
Specific are of your home for your trade or business.
- **Regular Use**
Use the are on a continuing basis.
- **Trade or Business Use**
Used in connection with a trade or business.



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Must Meet One

- Principal place of business
- Meet and deal with clients or customers in the normal course of your trade
- A separate structure used in connection with your trade.



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Determine Business Percentage

- Divide the area used for business by the total area of the house.
- Divide the number of rooms used for business by the total number of rooms in the house. Rooms have to be approximately equivalent in size



Other Considerations

- **Partial Year Usage:**
Only consider that portion of the year you actually start using your home for business.
- **Deduction Limit:**
Your business use of home expenses are limited to the tentative profit (net income before taking business use of home expenses).



Type of Expenses

- **Direct:**
All expenses for the business part of your home are fully deductible. (Example: Painting or repairs to the business area only)
- **Indirect:**
Expenses for running the entire home are deducted based on the business percentage. (Example: Insurance, utilities, and general home repairs)



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CAUTION: Sale of Residence

If you sell a home that had a portion used for any period of time for business purposes, and, as a result, depreciation deductions were taken on earlier federal income tax returns, the amount of gain subject to the gain exclusion must be reduced by the total of the depreciation deductions.



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Form 8829

- **Part I:** Part of Your Home Used for Business. Figures the business percentage to use for indirect expenses.
- **Part II:** Figure Your Allowable Deduction
Figures the allowable deduction.
- **Part III:** Depreciation of Your Home
Figures depreciation amount.
- **Part IV:** Carryover of Unallowable Expenses
Determines the amount that was not deducted due to tentative profit limitation.



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Home-Based Business Tax Avoidance Schemes

- Transforming non-deductible personal living expenses into business expenses.
- Paying your child a "deductible salary" for merely answering your phone or washing your car.
- Deducting the cost of your child's education.



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Thank You!